

# Tullett Prebon plc

## Preliminary Results 2013

March 2014





**Terry Smith**  
Chief Executive



# Introduction

- Challenging market conditions
- Market activity subdued – particularly in H2
- Revenue down 6%
- Action taken to reduce costs
- Operating margin 14.4%
- Dividend – unchanged final – total 16.85p per share – unchanged

# Market Activity

- Low volatility
- More onerous regulatory environment for banks
- Uncertainty over OTC derivatives markets regulations

# Costs – Regulatory Readiness

- 2012 < 1% revenue
- 2013  $\approx$  2% revenue
- 2014 expected  $\approx$  2.5% revenue

# Costs – Cost Reduction Actions

- 2011/2012 restructuring
- 2013 reductions in fixed costs and variable remuneration
- Broker compensation:
  - 2013 58.3% of broking revenue
  - 2012 59.8% of broking revenue

# Broking – Quality of Service

- Risk Magazine's 2013 Interdealer Rankings
  - voted No. 1 in 34 out of 94 derivatives product categories
  - more No. 1 positions than any other single interdealer broker
- FX Week Best Bank Awards 2013
  - Best Broker for Forward FX – 13<sup>th</sup> year running
- Futures and Options World Awards 2013
  - Fixed Income Derivatives Broker of the Year

# Broking – Quality of Service – Energy

- Derivatives Week Magazine 2013 Awards
  - Commodities Interdealer Broker of the year
- Energy Risk Awards 2013
  - Broker of the Year



# Broking Developments

- Europe and the Middle East
  - increased coverage in Continental Europe; Dubai
  - new office in South Africa
- Americas
  - Chapdelaine
  - Mexico
  - tpSEF Inc.
- Asia
  - Hong Kong, offshore Renminbi
  - Tokyo, full control

# Electronic Broking

- Hybrid model
- Most OTC product markets depend on voice broker support
- Development work focused on tpSEF requirements
- tpSWAPDEAL
- tpQUICKDEAL
- tpCADDEAL

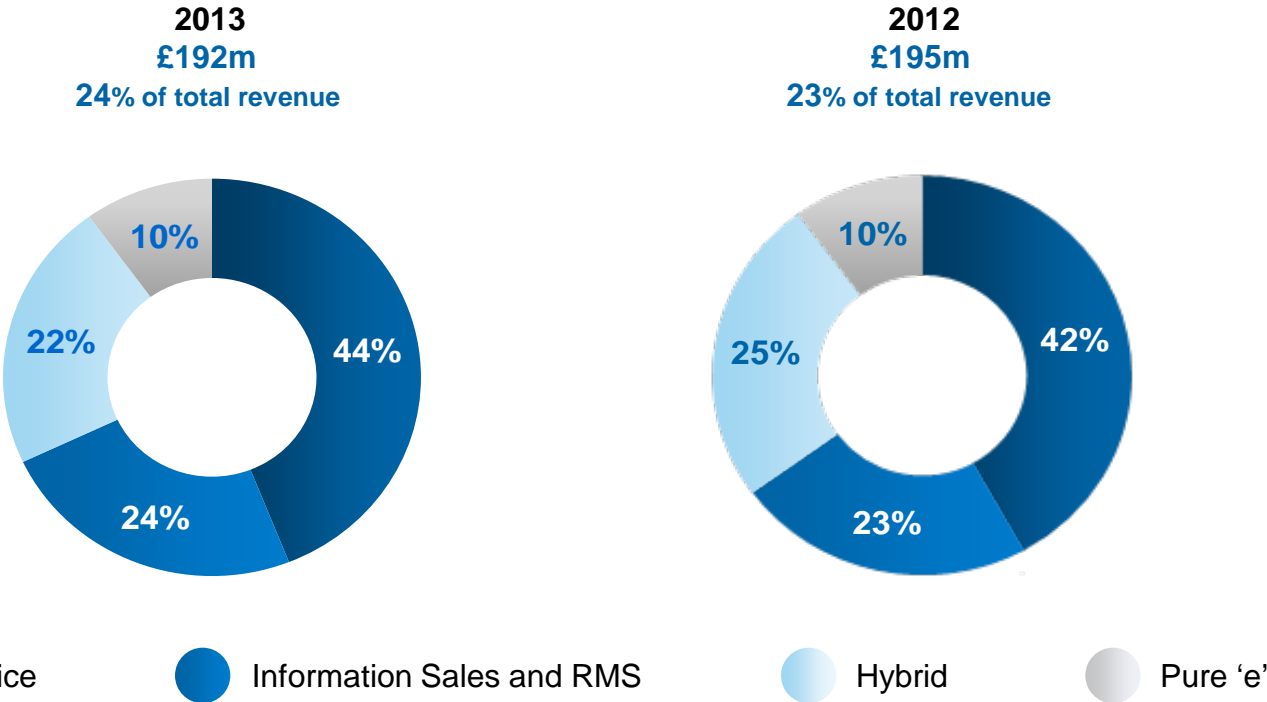
# Information Sales

- Inside Market Data magazine:
  - Best Data Provider (Broker) award – third consecutive year
- Expansion of product offering
- Continued growth in customer base

# Electronic Broking - Revenue

## Revenue from products supported by electronic platforms plus Information Sales

Proportion of Revenue by Type



# OTC Market Regulation – United States

- SEFs operational from 2 October
- tpSEF Inc – trade execution and reporting in five asset classes
- Market shares of IDBs stable
- Mandatory execution within a SEF for instruments “made available to trade”

# OTC Market Regulation – Europe

- EMIR: phased implementation
  - trade reporting, clearing, margin requirements
- MiFID II / MiFIR: expected to be effective 2016
  - trade execution venues, governance, conduct

# Litigation Update

- United States
  - FINRA arbitration
  - RICO action
  - £15.2m charge – exceptional item

# Financial Performance

£m	2013	2012	Change
Revenue	803.7	850.8	-6%
Underlying Operating profit	115.4	125.5	-8%
Underlying Operating margin	14.4%	14.8%	-0.4%pts



# Revenue by Product Group

£m (2012 at constant exchange rates)

2013

2012

Change

Treasury Products	211.4	230.8	-8%
Interest Rate Derivatives	174.2	181.8	-4%
Fixed Income	225.5	243.3	-7%
Equities	43.2	42.8	+1%
Energy	102.4	106.9	-4%
Info Sales/Risk Management Services	47.0	46.0	+2%
	<u>803.7</u>	<u>851.6</u>	<u>-6%</u>
Exchange translation	-	(0.8)	
	<u>803.7</u>	<u>850.8</u>	<u>-6%</u>

# Revenue by Region

£m (2012 at constant exchange rates)

2013

2012

Change

Europe and the Middle East

468.7

503.0

-7%

Americas

233.9

238.9

-2%

Asia Pacific

101.1

109.7

-8%

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803.7

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851.6

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-6%

Exchange translation

-

(0.8)

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803.7

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850.8

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-6%

# Underlying Operating Profit & Margin by Region

£m	Underlying Operating Profit			Margin	
	2013	2012	Change	2013	2012
Europe and the Middle East	97.9	111.2	-12%	20.9%	22.2%
Americas	10.4	2.4	+333%	4.4%	1.0%
Asia Pacific	7.1	11.9	-40%	7.0%	10.6%
	<u>115.4</u>	<u>125.5</u>	<u>-8%</u>	<u>14.4%</u>	<u>14.8%</u>

# Performance Measures

	2013	2012	Change
Average broker headcount	1,702	1,742	-2%
Average revenue per broker	£445k	£462k	-4%
Broker employment costs: broking revenue	58.3%	59.8%	-1.5%pts
Broking support headcount (year end)	747	719	+4%

# Broker Headcount

	December 2013	June 2013	December 2012
Europe and the Middle East	816	821	827
Americas	512	520	528
Asia Pacific	359	363	365
	<hr/> 1,687	<hr/> 1,704	<hr/> 1,720

# Comparison with Sector – most recent 12 months

Most recent published 12 months (see appendix for basis)	Revenue £m	Revenue Change Year on Year %	Operating Margin %
ICAP (Electronic Broking)	275	0%	41.8%
ICAP (Post Trade Risk and Information Services)	208	-2%	43.3%
ICAP (Voice Broking)	979	-9%	11.4%
ICAP (All activities)	1,462	-6%	21.7%
Tullett Prebon	804	-6%	14.4%
BGC Partners Inc (Financial Services only)	689	-5%	n/a
Tradition	603	-9%	5.2%
GFI	475	-5%	2.5%

# Comparison with Sector – RoE

Return on Equity	5 year Average*
ICAP	11.7%
Tullett Prebon	25.5%
BGC Partners Inc	10.5%
Tradition	15.1%
GFI	3.4%

*\*source: Bloomberg*



**Paul Mainwaring**  
Finance Director





# Profit & Loss

£m	2013			2012		
	Underlying	Exceptional Items	Reported	Underlying	Exceptional Items	Reported
<b>Revenue</b>	<b>803.7</b>		<b>803.7</b>	<b>850.8</b>		<b>850.8</b>
Operating profit	115.4		115.4	125.5		125.5
Charge relating to major legal actions		(15.2)	(15.2)		(11.6)	(11.6)
Restructuring costs					(14.8)	(14.8)
Goodwill impairment					(123.0)	(123.0)
<b>Operating profit</b>	<b>115.4</b>	<b>(15.2)</b>	<b>100.2</b>	<b>125.5</b>		<b>(23.9)</b>
Finance income/(expense)	(15.8)		(15.8)	(14.2)		(14.2)
<b>Profit before tax</b>	<b>99.6</b>	<b>(15.2)</b>	<b>84.4</b>	<b>111.3</b>	<b>(149.4)</b>	<b>(38.1)</b>
Tax	(22.4)	2.4	(20.0)	(26.3)	2.3	(24.0)
Associates	1.4		1.4	1.2		1.2
Minorities	(0.2)		(0.2)	(0.3)		(0.3)
<b>Earnings</b>	<b>78.4</b>	<b>(12.8)</b>	<b>65.6</b>	<b>85.9</b>	<b>(147.1)</b>	<b>(61.2)</b>

# Finance Income/(Expense)

£m	2013	2012
Interest receivable on cash balances	1.8	1.8
Payable on Sterling Notes	(14.7)	(10.7)
Bank loan and RCF commitment fee	(1.7)	(4.5)
Amortisation of debt issue costs	(2.3)	(1.5)
Other interest	(0.3)	(0.2)
Cash interest and fees	(17.2)	(15.1)
Deemed pension scheme income	1.9	1.7
Amortisation of discount on deferred consideration	(0.5)	(0.8)
Non cash interest	1.4	0.9
	<b>(15.8)</b>	<b>(14.2)</b>

# Taxation – Underlying

£m	2013	2012
Underlying Profit before tax	<u>99.6</u>	<u>111.3</u>
Effective rate of tax	22.5%	23.6%
Tax charge on underlying Profit before tax	<u>(22.4)</u>	<u>(26.3)</u>

# Taxation – Exceptional Items

£m	2013	2012
Exceptional items	<u>(15.2)</u>	<u>(149.4)</u>
Effective rate of tax	15.8%	1.5%
Tax relief on exceptional items	<u>2.4</u>	<u>2.3</u>

# EPS

	2013	2012
Underlying Earnings	<u>£78.4m</u>	<u>£85.9m</u>
Weighted average number of shares	217.8m	217.6m
Basic Underlying Earnings per share	<u>36.0p</u>	<u>39.5p</u>

# Operating Cash Flow

£m	2013	2012
Underlying Operating profit	115.4	125.5
Share based compensation	1.0	1.4
Depreciation/amortisation	13.4	11.8
EBITDA	129.8	138.7
Capital expenditure	(17.0)	(17.6)
Decrease/(increase) in initial contract prepayments	16.6	(10.3)
Other working capital	(21.7)	(38.0)
Operating cash flow	107.7	72.8
% of operating profit	93%	58%

# Net Cash Flow

£m	2013	2012
Operating cash flow	107.7	72.8
Restructuring costs	(3.2)	(14.5)
Major legal actions	(15.2)	(16.8)
Interest	(14.9)	(13.6)
Taxation	(27.5)	(27.3)
Dividends received from associates/paid to minorities	0.7	0.1
Acquisitions/Investments	(2.3)	(10.9)
Cash flow before debt repayments and dividends	<u>45.3</u>	<u>(10.2)</u>

# Movement in Cash and Debt

£m	Cash	Debt	Net
At 31 December 2012	311.8	(255.8)	56.0
Cash flow	45.3	-	45.3
Dividends	(36.7)	-	(36.7)
Debt repayments	(30.0)	30.0	-
Bank facility arrangement fees	(1.7)	-	(1.7)
Amortisation of debt issue costs	-	(1.8)	(1.8)
Effect of movement in exchange rates	(5.9)	-	(5.9)
At 31 December 2013	<u>282.8</u>	<u>(227.6)</u>	<u>55.2</u>



# Debt Profile at Year End

£m	2013	2012
Bank amortising term loan	-	30.0
6.52% Sterling Notes August 2014	8.5	8.5
7.04% Sterling Notes July 2016	141.1	141.1
5.25% Sterling Notes June 2019	80.0	80.0
Unamortised issue costs	(2.0)	(3.8)
	<u>227.6</u>	<u>255.8</u>

# Balance Sheet

£m

December 2013

December 2012

Goodwill	275.6	278.5
Deferred consideration	(1.7)	(5.8)
Associates/investments	9.7	10.0
<b>Operating assets/(liabilities)</b>	<b>46.4</b>	<b>35.4</b>
Interest/facility fees	(4.2)	(5.5)
Tax	(15.4)	(23.5)
Pension scheme surplus net of deferred tax	32.8	26.9
	<hr/>	<hr/>
	343.2	316.0
<b>Net funds</b>	<b>55.2</b>	<b>56.0</b>
	<hr/>	<hr/>
Net assets/Shareholders' funds	398.4	372.0
	<hr/>	<hr/>

# Operating Assets/(Liabilities)

£m

December 2013

December 2012

Fixed assets	50.6	47.3
Trade receivables	70.2	69.4
Net settlement balances	0.7	0.6
Other debtors/prepayments	64.9	81.0
Payables/accruals	(133.9)	(151.6)
Provisions	(6.1)	(11.3)

**46.4**

**35.4**

Gross settlement balances - Receivable  
- Payable

5,682.5

5,721.9

(5,681.8)

(5,721.3)

**0.7**

**0.6**

# Pension Scheme Surplus

£m	December 2013	December 2012
Scheme assets	226.1	204.3
IAS19 valuation of liabilities	(175.6)	(162.9)
Accounting surplus	50.5	41.4
Related deferred tax liability	(17.7)	(14.5)
	<u>32.8</u>	<u>26.9</u>
Discount rate applied	4.4%	4.4%



**Terry Smith**  
Chief Executive



# Outlook

- Financial market activity subdued
- Revenue in first two months 2014 down 12%
- Benefit from actions taken on costs
- Regulatory readiness costs
- Well positioned to benefit from an upturn in activity

# Tullett Prebon plc

## Preliminary Results 2013

March 2014



## Appendices





# Profit & Loss Restatement for IAS 19

£m	Underlying - FY 2012		
	Reported	IAS19 Adjustment	Restated
<b>Revenue</b>	<b>850.8</b>		<b>850.8</b>
<b>Operating profit</b>	<b>126.0</b>	<b>(0.5)</b>	<b>125.5</b>
Finance income/(expense) - cash	(15.1)		(15.1)
- non cash	3.8	(2.9)	0.9
<b>Profit before tax</b>	<b>114.7</b>	<b>(3.4)</b>	<b>111.3</b>
Tax	(27.5)	1.2	(26.3)
Associates	1.2		1.2
Minorities	(0.3)		(0.3)
<b>Earnings</b>	<b>88.1</b>	<b>(2.2)</b>	<b>85.9</b>

# Comparison with Sector – most recent 6 months

Most recent published 6 months (see appendix for basis)	Revenue £m	Revenue Change Year on Year %	Operating Margin %
ICAP (Electronic Broking)	141	5%	39.0%
ICAP (Post Trade Risk and Information Services)	103	1%	41.7%
ICAP (Voice Broking)	492	-4%	11.2%
ICAP (All activities)	736	-1%	20.8%
Tullett Prebon	364	-8%	12.1%
BGC Partners Inc (Financial Services only)	307	-8%	n/a
Tradition	275	-11%	6.1%
GFI	219	-4%	0.6%

# Competitor Analysis – Basis

- Unless noted below operating profit margins are calculated using reported revenue and profit before net interest and associates.
- ICAP is 12 and 6 months to September 2013 with prior year comparatives. Operating profit margin is shown before “acquisition and disposal costs” (which include amortisation of acquisition intangibles) and exceptional items.
- Tullett Prebon is 12 and 6 months to December 2013 with prior year comparatives. Operating profit margin is shown before exceptional items.
- BGC Partners Inc. is 12 and 6 months to December 2013 with prior year comparatives. Revenue includes Financial Services Broking (excluding eSpeed revenue in all periods), Market Data and Software Solutions revenues. Adjusting the reported profit to exclude gains from the sale of eSpeed results in an operating loss for both the 12 and 6 month periods.
- Tradition revenue is 12 and 6 months to December 2013 with prior year comparatives. Operating profit margin is 12 and 6 months to June 2013.
- GFI is 12 and 6 months to December 2013 with prior year comparatives. Revenue includes Broking, Clearing Services (net), Software, Analytics and Market Data.
- Average exchange rates applied for each period.

# Major Shareholders as at 14 February 2014

Investor	Holding	(%)	
1	Jupiter Asset Management	22,703,109	10.43
2	Scottish Widows Investment Partnership	15,931,062	7.32
3	Aberforth Partners LLP	15,325,643	7.04
4	Schroder Investment Management	15,045,526	6.91
5	Oppenheimerfunds	12,129,737	5.57
6	Henderson Global Investors	10,417,402	4.78
7	Invesco Trimark	10,313,059	4.74
8	Director & Related Holding(s)	9,939,251	4.56
9	Majedie Asset Management	8,703,877	4.00
10	LSV Asset Management	7,278,323	3.34
11	Liontrust Asset Management	7,209,862	3.31
12	Legal & General Investment Management	6,587,267	3.03
13	Norges Bank Investment Management	5,359,445	2.46
14	BlackRock Investment Management (UK)	4,541,038	2.09
15	Allianz KAG Frankfurt	3,523,101	1.62
16	M&G Investments	3,234,536	1.49
17	Dimensional Fund Advisors	2,875,454	1.32
18	State Street Global Advisors	2,704,540	1.24
19	Premier Fund Managers Ltd	2,700,000	1.24
20	Invesco AIM Capital Management	2,472,600	1.14
		<hr/>	<hr/>
		168,994,832	77.63